



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

January 21, 1999

H.R. 98

A bill to amend chapter 443 of Title 49, United States Code, to extend the aviation war risk insurance program

*As ordered reported by the House Committee on Transportation and Infrastructure
on January 7, 1999*

H.R. 98 would extend the authorization for the Federal Aviation Administration's (FAA's) aviation insurance program through December 31, 2003. Under current law, the program will end on March 31, 1999. Enacting H.R. 98 could increase federal spending, but because claims under the aviation insurance program are very rare, CBO estimates that extending the program would probably have no significant impact on the federal budget over the next five years. Because the bill could affect direct spending, pay-as-you-go procedures would apply. H.R. 98 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would have no impact on the budgets of state, local, or tribal governments.

The aviation insurance program insures aircraft operations that are deemed essential to the foreign policy interests of the United States when commercial insurance is unavailable on reasonable terms. The program is financed through the Aviation Insurance Revolving Fund, which is supported by premiums paid for coverage (for "premium insurance"), one-time binder fees paid by the airlines (for "nonpremium insurance"), and interest on investments from the revolving fund in U.S. Treasury securities. According to the FAA, from 1959 through September 1998, the balance in the fund has grown to \$71 million and the fund has paid out a total of only \$151,000 in claims. New receipts from airlines total less than \$100,000 a year.

Nonpremium insurance, which has accounted for about 99 percent of all aviation insurance in the recent past, is for U.S. airlines that are providing contract services for federal agencies that have indemnification agreements with the Department of Transportation (DOT). Currently, only the Department of Defense (DoD) and the State Department have such agreements with DOT. In the event of a loss, DoD and the State Department would reimburse the FAA for the insurance claims it would have to pay the airlines. Since 1975, approximately 5,400 flights have been covered by the program.

Premium insurance is provided to U.S. or foreign airlines for regularly scheduled commercial or charter service. Airlines pay a premium to FAA for the coverage, similar to a commercial insurance policy. Both types of insurance policies cover hull loss and liability.

Enacting H.R. 98 could cause an increase in federal spending if new claims would result. Moreover, such new spending could be very large, particularly if a claim exceeded the balance of the trust fund and the FAA had to seek a supplemental appropriation. But historical experience suggests that claims under this program are very rare; therefore, extending the aviation insurance program would probably have no significant impact on the federal budget over the next five years.

The CBO staff contact for this estimate is Victoria V. Heid. The estimate was approved by Robert A. Sunshine, Deputy Assistant Director for Budget Analysis.